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Memo to Government Efficiency and Labor Committee
February 17, 1993 Government Efficiency and Labor Committee Meeting

Item 3 - File 172-92-21

Note: This item was continued from the February 3, 1993 Government Efficiency and Labor Committee meeting.

Item: Resolution supporting the concepts of an expanded partnership between the San Francisco Recreation and Park Commission and the San Francisco Zoological Society whereby the Society shall operate and manage the Zoo.

Description: The San Francisco Zoological Society (SFZS), a non-profit corporation, has managed a number of functions at the San Francisco Zoo since 1964 under a lease agreement with the City. In early 1992, the Mayor's Office, through the Recreation and Park Department, requested that the SFZS submit a proposal to expand its current role to include management of the entire Zoo, including increased private funding for Zoo operations and maintenance.

On September 1, 1992, the Recreation and Park Commission adopted Resolution No. 16420, which expressed support for an expansion of the City's partnership with the SFZS, and which included a six-page exhibit entitled "Concepts for an Expanded Partnership Lease Agreement." The resolution directed the General Manager of the Recreation and Park Department to submit the proposed concepts to the Board of Supervisors, and to request that the Board of Supervisors indicate "whether or not they support them." A proposed lease agreement between the City and the SFZS is not yet available for review by the Board of Supervisors.

The proposed resolution would 1) confer the support of the Board of Supervisors for the concepts of an expanded partnership between the City and the San Francisco Zoological Society for the care, control and management of the Zoo, and 2) urge the Recreation and Park Commission and the San Francisco Zoological Society (SFZS) to negotiate a lease agreement which incorporates these concepts.

The Budget Analyst has expressed concern that the proposed concepts lack significant financial details. At the request of the Government Efficiency and Labor Committee, the Zoo Director and the Executive Director of the SFZS have developed proposed amended concepts which incorporate the proposed fiscal provisions of an expanded partnership lease agreement. The amended proposed concepts have been reviewed by the Budget Analyst.

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The amended concepts reflect, in part, that, over the first five years of a lease agreement, the City would contribute an annual subsidy of \$4 million; the SFZS would contribute a minimum of \$7 million annually, which would include Zoo admission fees, for the Zoo's operating expenses; and the SFZS would contribute a \$10 million Founder's Fund from private sources, including \$2 million in operating funds, \$5 million for capital projects, and \$3 million to increase the SFZS Endowment Fund.

The amended concepts reflect that the SFZS would undertake a \$25 million capital campaign and that the Recreation and Park Commission would support an additional \$25 million bond issue for the Zoo. However, these sources of up to \$50 million for capital improvements at the Zoo would not be required to be provided under the terms of a lease agreement.

The term of the lease agreement would be for five years. At the expiration of the five year term, the lease could be extended on an annual basis or renewed for an additional five year or longer period, subject to approval by the Board of Supervisors. If the lease is extended, it could also be renewed for five years or longer at the end of each annual extension, subject to approval by the Board of Supervisors.

The City would have an option to terminate a lease agreement if the Zoo loses its license or its accreditation, or if the SFZS fails to provide an annual subsidy of \$7 million in each of the first five years and to provide the \$10 million Founder's Fund. The SFZS could terminate a lease agreement if the City fails to meet its obligations under a lease agreement. Since a lease agreement is not available, these obligations have not been specified.

Comments:

1. The Zoo's total annual operating budget in 1991-92 was \$11,850,254, including \$4,089,738 in a General Fund appropriation to the Recreation and Park Department, \$5,149,000 in financial support from the SFZS, \$1,935,000 in admission fees, and \$676,516 in park maintenance services, such as tree trimming and heavy equipment operations, provided at the Zoo by the Recreation and Park Department.

Between 1991-92 and 1992-93, the General Fund appropriation for the Zoo decreased by 9.2 percent from \$4,089,738 to \$3,715,000. Mr. David Anderson, the Zoo Director, estimates the City's total costs for Zoo operations in 1992-93 at \$4,122,000, which includes an estimated \$407,000 in park maintenance services provided at the Zoo by the Recreation and Park Department.

million. Overall the results are mixed, with 10% growth in the
middle segment and 1% increase in the high end.

With all four local firms of note, sales increased 10% in 2011, with
the sales from Bally's up 12% to \$1.2 billion. The 10% increase
was attributed to the opening of the new hotel and
the new 18-hole golf course, as well as the new
and smaller rooms, which helped to increase room rates. The
10% growth is similar to 2010's 12% increase, which shows
the success of million dollar room upgrades. The results
have continued to be

surpassing high expectations and reflect a strong performance
in the market, with industry analysts saying that the 10% is
nothing to be surprised by. Bally's has now moved
from the bottom of the market to the top, as the hotel
is now above 100% of the market value, despite the
continued growth of luxury alternative properties in the market.

Comparing with the Ulster region, growth has been 10%
in 2011, which is the best rate of growth in the market, and
the high end market has shown mixed growth, with the mid
market showing the best growth, due to the high
volume of tourists, who are willing to pay a premium
for a comfortable room, along to compare to the

other 80% of tourists, who choose to stay
in the mid market. The mid market is still a strong
market, with the growth in the market, and the
mid market showing the best growth, due to the
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2. Mr. Anderson states that, in order for the City to bring the Zoo into satisfactory operating condition, the City would need to make a minimum capital investment of \$24.1 million, and to appropriate approximately \$1 million in additional operating funds on an annual basis (an increase of 26.9 percent over the 1992-93 General Fund allocation for the Zoo's operating expenses of \$3,715,000).
3. The City's estimated savings over the first five years of the proposed partnership is based on the difference between the \$4 million proposed annual City subsidy (including the cost of park maintenance services provided by City agencies) and the costs that the General Fund would otherwise incur for the Zoo's operating costs, at a projected increase of six percent per year from the total cost to the City in 1991-92 of \$4,766,254, as follows:

Estimated General Fund Savings Under an Expanded Partnership

<u>Fiscal Year</u>	<u>Estimated Annual Expenditures*</u>	<u>Estimated City Subsidy</u>	<u>Estimated Savings</u>
1993-94	5,355,363	4,000,000	\$1,355,363
1994-95	5,676,685	4,000,000	1,676,685
1995-96	6,017,286	4,000,000	2,017,286
1996-97	6,378,323	4,000,000	2,378,323
1997-98	6,761,022	4,000,000	<u>2,761,022</u>
Total Estimated Savings to the City, FY94 - FY98			\$10,188,679

* Figures include park maintenance services provided by the Recreation and Park Department with General Fund and other revenues.

The City's 1992-93 estimated expenditures for the Zoo of \$4,122,000 have not been used to project the City's future costs, since concern has been expressed that the City's 1992-93 expenditures will not be sufficient to maintain the Zoo in satisfactory condition.

4. The amended concepts reflect that the Society would agree to provide at least \$7 million annually to support Zoo operations during the first five years of a lease agreement. The \$7 million would be the SFZS's minimum commitment for Zoo operations, and would not be required to increase over the five years of an expanded partnership lease agreement. However, the amended concepts reflect that, "all revenues and contributions including those that may exceed \$7 million shall be used for Zoo purposes."

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5. The Budget Analyst notes that the proposed \$7 million minimum annual contribution would include revenues from Zoo admission fees, which are currently collected by the City. In 1991-92, revenues from admission fees were \$1,935,000 and the SFZS contributed \$5,149,000, for a combined total of \$7,084,000 from these sources. The proposed \$7 million minimum annual contribution from the SFZS is therefore \$84,000 less than the combined revenues which were received from Zoo admission fees and the SFZS in 1991-92, despite an increase in some admission fees which took effect July 1, 1992.

6. The Budget Analyst notes that the total of \$11,000,000 in annual operating support (\$4 million from the City and \$7 million from the SFZS) which would be required during the first five years of a lease agreement is \$850,254 less than the Zoo's 1991-92 operating budget of \$11,850,254.

Mr. Anderson states that there is "no reason not to anticipate" that the SFZS would raise sufficient funds for the Zoo's operating costs, based on the SFZS's past success in raising funds for the Zoo, and the availability of \$2 million from the proposed SFZS Founder's Fund (see Comment 7) for operating costs at the Zoo during the first five years of a lease agreement.

7. The SFZS would also establish a \$10 million Founder's Fund for the Zoo, including a total of \$2 million for operating support over the first five years, \$5 million for capital improvements, and \$3 million to increase the SFZS's existing \$1.3 million endowment fund for the Zoo to approximately \$4.3 million. Five percent of the endowment fund is contributed annually for the Zoo's operating expenses; if the endowment fund were \$4.3 million, five percent of the fund would provide \$215,000 for Zoo operations.

8. Attached to this report is a summary of the revenue and expense projections prepared by the Recreation and Park Department and the SFZS for the first five years of the proposed expanded partnership. The budget summary reflects that annual operating expenditures for the Zoo are expected to increase from an estimated \$11,850,254 in 1991-92 to \$18,821,000 in 1997-98, at an average annual increase of approximately 8 percent between July 1, 1993 and June 30, 1998.

Operating revenues are projected to increase by approximately 12.8 percent per year over the first five years of the proposed expanded partnership, including an estimated

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15.7 percent average annual increase in memberships in the SFZS, a 15.5 percent average annual increase in contributions and events, and an 18.8 percent average annual increase in net profits from retail sales at the Zoo. Mr. Anderson states that these revenue projections are based on an anticipated increase in Zoo attendance of six percent per year, and that the projected attendance levels are comparable to attendance levels which were reached in 1985.

Ms. Peggy Burks, Executive Director of the SFZS, states that, although the proposed budget reflects large percentage increases in a number of revenue categories, these projections are not unrealistic due to the current low level of private financial support for the Zoo, the current poor condition of the Zoo, and the absence of significant marketing activities designed to increase Zoo attendance. Ms. Burks states that improved management and marketing of the Zoo are expected to assure the levels of future financial support reflected in the budget projections, and that these projections are based in part on discussions with other cultural and recreational institutions which receive significant donor support.

Ms. Burks notes that the growth of expenditures reflected in the budget summary reflects a number of planned expansions and improvements at the Zoo, which could be controlled by the SFZS in response to changing circumstances. Ms. Burks states that, if the revenues projected for the Zoo under SFZS management in excess of \$7 million are not realized, the SFZS would either make up the budget shortfall with SFZS reserve funds or delay some of the proposed Zoo expansions involving new programs or services.

9. The Budget Analyst notes that a lease agreement would provide \$11 million (\$4 million from the City and a base level of \$7 million from the SFZS) in annual operating support for the Zoo over the first five years of a lease agreement. The difference between the proposed \$11 million in annual operating support under a lease agreement and the expenditure projections which were submitted in support of the expanded partnership proposal are shown on the following page:

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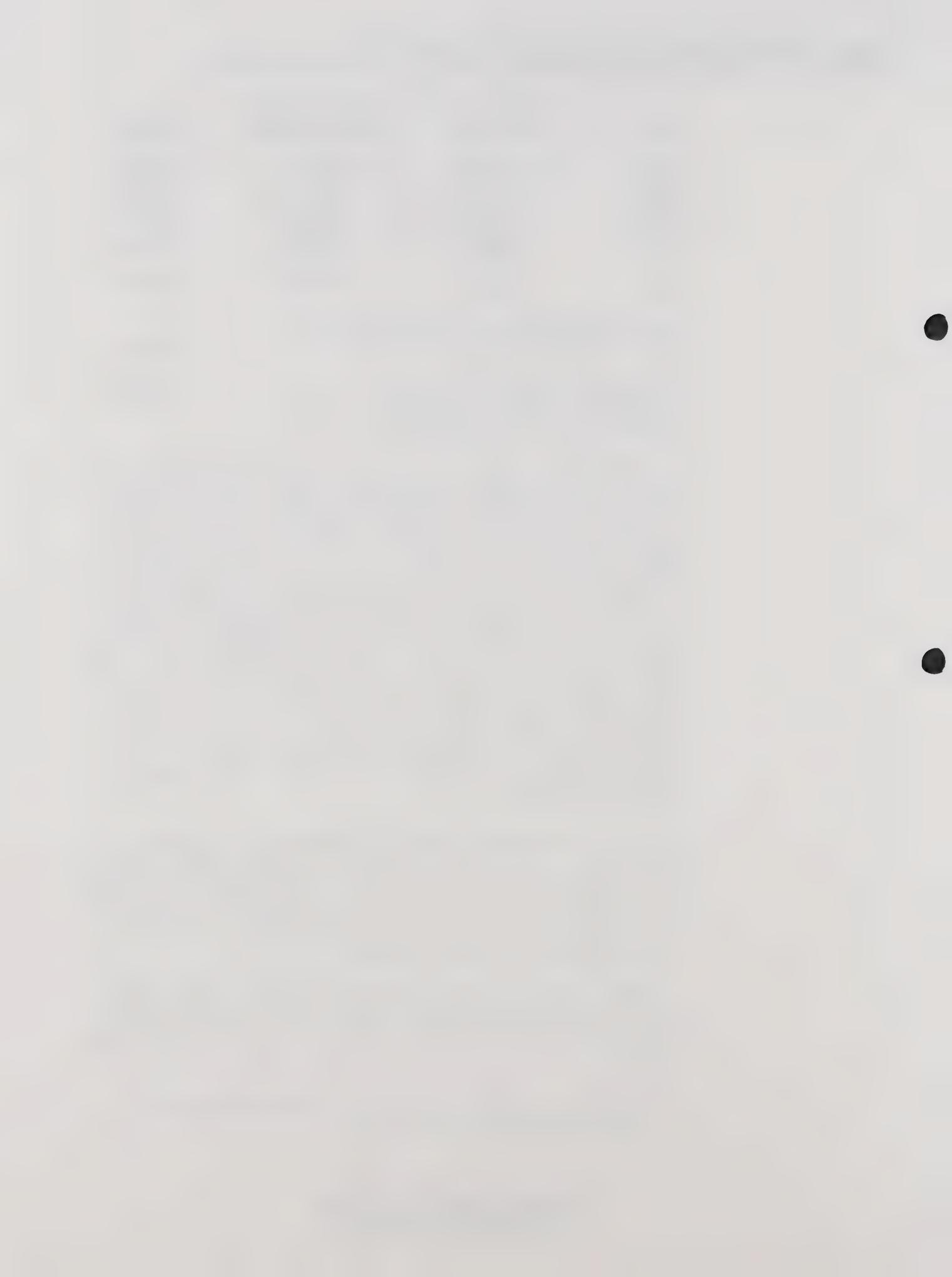
<u>Year</u>	<u>Projected Expenditures</u>	<u>Proposed Annual Operating Support</u>	<u>Difference</u>
1993-94	\$13,691,746	\$11,000,000	\$2,691,746
1994-95	14,702,780	11,000,000	3,702,780
1995-96	16,107,370	11,000,000	5,107,370
1996-97	17,437,000	11,000,000	6,437,000
1997-98	<u>18,821,000</u>	<u>11,000,000</u>	<u>7,821,000</u>
Total	\$80,759,896	\$55,000,000	\$25,759,896
Less: \$2 million total contribution from Founder's Fund for operating support in first five years			(\$2,000,000)
Excess of projected expenditures over revenues to be provided by the City and the SFZS (\$4,751,979 on an average annual basis over 5 years)			\$23,759,896

10. The budget projections shown above assume an average increase in the Zoo's total operating expenditures (funded by revenues from the City, the SFZS, and Zoo admission fees) of approximately 8 percent between 1993-94 and 1997-98. The Budget Analyst notes that if the Zoo's total operating expenditures increase at only six percent per year from the 1991-92 level of \$11,850,254, the Zoo's total operating expenses between July 1, 1993 and June 30, 1998 would be \$75,057,585, which is \$20,057,585 higher than the \$55 million in operating revenues over this period (\$11 million annually) which would be provided under an expanded partnership lease agreement. The Founder's Fund would provide a total of \$2 million in additional funds for operating expenses over the first five years, resulting in a net estimated shortfall of \$18,057,585, or approximately \$3.6 million on an average annual basis over the first five years.

Therefore, the Budget Analyst concludes that a minimum of \$3.6 million in additional operating support would be needed on an average annual basis, above the \$11 million annual support which is proposed to be provided under the terms of an expanded partnership lease agreement, in order to operate the Zoo at its 1991-92 level.

11. Mr. Anderson and Ms. Burks report that capital improvements at the Zoo are expected to be financed under the expanded partnership proposal from the following sources:

- (1) \$5 million designated for capital improvements from the \$10 million Founder's Fund.



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- (2) \$25 million through a SFZS capital campaign.
- (3) \$25 million in anticipated General Obligation bond revenues, subject to voter approval.

The concepts reflect that the SFZS would "undertake" the proposed \$25 million capital campaign for Zoo improvements. However, a lease agreement would not require the SFZS to make any specific contribution for capital improvements as a result of this capital campaign. Mr. Anderson notes that any funds which are in fact raised would be available for capital projects at the Zoo.

The amended concepts reflect that the Recreation and Park Commission would support a Zoo bond issue of \$25 million, but the amended concepts would not require such a bond measure to be placed before the voters and would not require the City to contribute funds from an alternative source if the bond measure is not placed before the voters or not approved by the electorate.

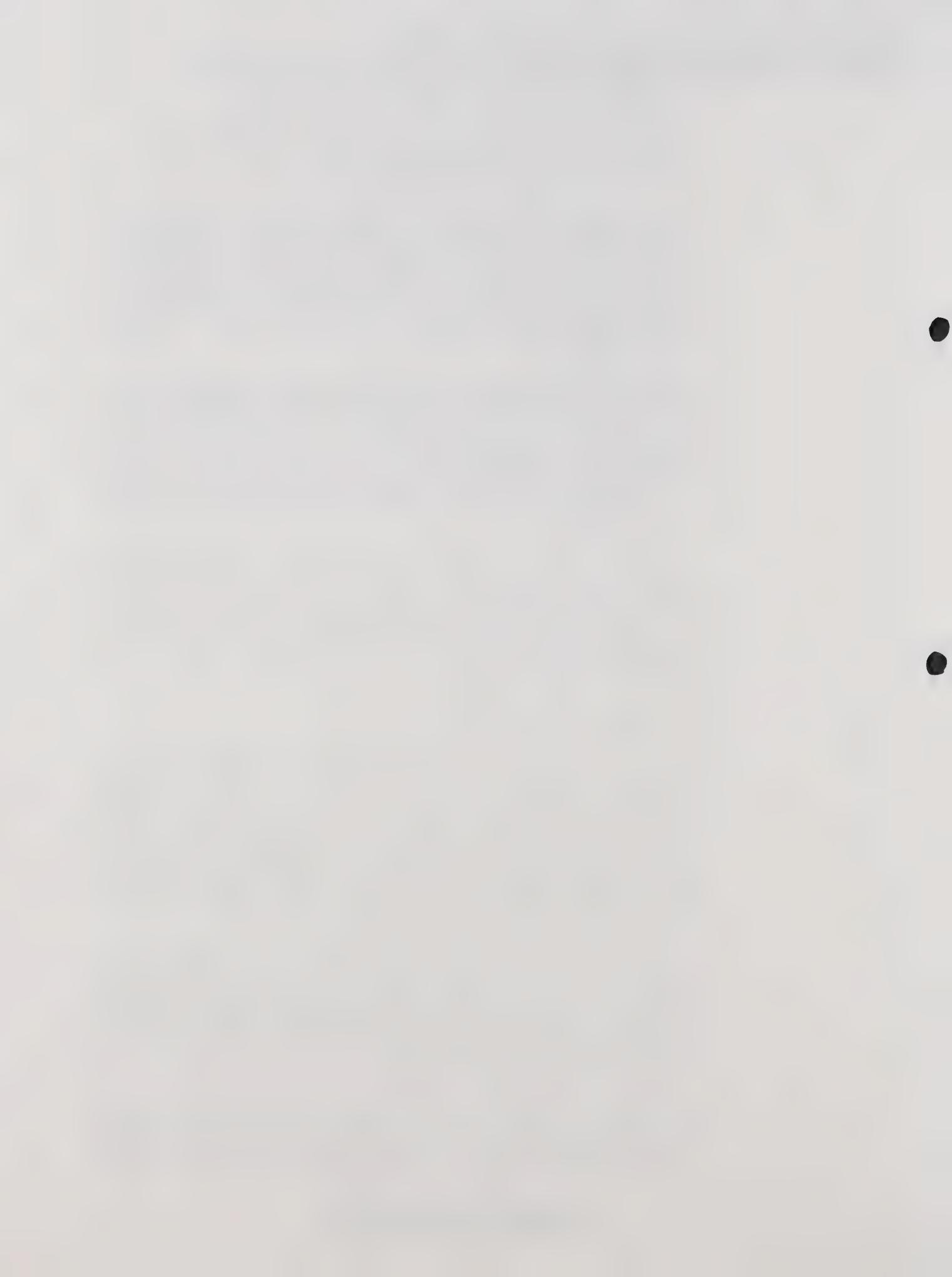
Therefore, the only source of capital improvement funds which would be assured under an expanded partnership lease agreement would be \$5 million from the \$10 million Founders Fund. This is \$19.1 million less than the \$24.1 million estimated minimum cost of the capital improvements which are needed at the Zoo.

Summary and Conclusions

12. If the final lease documents limit the City's subsidy for the Zoo at \$4 million annually in fiscal years 1993-94 through 1997-98, as has been proposed under this resolution supporting the concepts for the SFZS to operate and manage the Zoo, then the City's estimated total savings over five years would be approximately \$10.2 million, based on the estimated future expenditures which the City would otherwise incur at a six percent annual increase from the 1991-92 level.

13. However, the \$11 million in total annual operating support for the Zoo which would be required under a lease agreement in each of the first five years (\$4 million from the City and a minimum of \$7 million annually from the SFZS) would still be \$850,254 less than the Zoo's 1991-92 total operating budget of \$11,850,254.

14. Based on data provided to the Budget Analyst to support the SFZS operating and managing the Zoo, over the five year period between July 1, 1993 and June 30, 1998, the Budget



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Analyst estimates that an additional \$3.6 million in revenues will be needed annually, above the \$11 million which would be required under an expanded partnership lease agreement, in order to operate the Zoo at its 1991-92 level. In fact, in order to meet the budget projections for expanded Zoo operations which were submitted by the Recreation and Park Department and the SFZS in support of the expanded partnership proposal, an additional \$4.7 million in revenues (rather than \$3.6 million) would be needed annually in each of the first five years of the lease agreement to make up for the projected budget deficiency.

15. The only capital improvement funds which would be required to be provided under the proposed lease agreement would be \$5 million from the Founder's Fund. This amount is \$19.1 million less than Mr. Anderson's \$24.1 million estimated cost of the minimum capital improvements which are needed at the Zoo.

16. The Budget Analyst believes that the prospects for substantial increases in the Zoo's operating revenues and capital improvement funds under continued City management are poor, given the current \$184 million projected shortfall in the City's 1993-94 budget, and increasing demands on the City's debt capacity, as evidenced by a number of General Obligation bond measures which are now being considered by the City.

However, as previously noted, the actual financial provisions which have been proposed for inclusion in an expanded partnership lease agreement would result in a projected operating budget deficit estimated to range from \$3.6 million to \$4.7 million annually over the five years between July 1, 1993 and June 30, 1998, and would not specify a source for an estimated \$19.1 million which would still be needed to make the minimum necessary \$24.1 million in capital improvements which Mr. Anderson estimates are needed at the Zoo.

Although the SFZS may succeed in raising additional funds for the Zoo, the Budget Analyst concludes that the success of the expanded partnership proposal cannot be predicted on the basis of the financial provisions which, as of the writing of this report, have been proposed to be included in an expanded partnership lease agreement.

Recommendation: Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Expanded Partnership
Budget Summary

Source: San Francisco Zoological Society/
San Francisco Recreation and Park Department
Expanded Partnership Proposal, Sept. 1992

	1991-92 (actual)	1992-93		1993-94		1994-95		1995-96		1996-97		1997-98		Avg. Annual Increase FY94-FY98
REVENUE			Pct. Change		Pct. Change		Pct. Change		Pct. Change		Pct. Change		Pct. Change	
Admission Fees	1,935,000	2,310,000	19.38%	2,418,000	4.68%	3,010,000	24.48%	3,312,000	10.03%	3,782,000	14.19%	3,936,000	4.07%	11.49%
Zoological Society:														
Retail Services (Gross)	2,674,000	3,240,000	21.17%	3,570,000	10.19%	3,980,000	11.48%	4,640,000	16.58%	5,150,000	10.99%	5,700,000	10.68%	11.98%
SFZS Membership	1,069,000	1,150,000	7.58%	1,400,000	21.74%	1,600,000	14.29%	1,860,000	16.25%	2,127,000	14.35%	2,380,000	11.89%	15.70%
Contributions & Events	738,000	910,000	23.31%	1,065,000	17.03%	1,285,000	20.66%	1,460,000	13.62%	1,635,000	11.99%	1,865,000	14.07%	15.47%
Children's Zoo	216,000	225,000	4.17%	236,000	4.89%	250,000	5.93%	275,000	10.00%	288,000	4.73%	300,000	4.17%	5.94%
Other	452,000	225,000	-50.22%	285,000	26.67%	340,000	19.30%	375,000	10.29%	455,000	21.33%	540,000	18.68%	19.25%
Subtotal: SFZS	5,149,000	5,750,000	11.67%	6,556,000	14.02%	7,455,000	13.71%	8,610,000	15.49%	9,655,000	12.14%	10,785,000	11.70%	13.41%
Total Non-General Fund	7,084,000	8,060,000	13.78%	8,974,000	11.34%	10,465,000	16.61%	11,922,000	13.92%	13,437,000	12.71%	14,721,000	9.56%	12.83%
City Subsidy	4,766,254	4,122,000		4,000,000		4,000,000		4,000,000		4,000,000		4,000,000		0.00%
TOTAL	11,850,254	12,182,000	2.80%	12,974,000	6.50%	14,465,000	11.49%	15,922,000	10.07%	17,437,000	9.52%	18,721,000	7.36%	8.99%
EXPENSE														
Animal Care Division	4,031,436	4,299,992	6.66%	4,587,677	6.69%	4,862,937	6.00%	5,154,713	6.00%	5,679,386	10.18%	6,203,688	9.23%	7.62%
Operations Division	1,594,890	1,633,508	2.42%	1,682,669	3.01%	1,756,616	4.39%	1,988,009	13.17%	2,107,288	6.00%	2,233,726	6.00%	6.52%
Public Services Division	2,403,045	2,559,948	6.53%	2,725,904	6.48%	3,000,223	10.06%	3,306,484	10.21%	3,504,873	6.00%	3,715,165	6.00%	7.75%
Administration & Utilities	1,898,883	2,133,678	12.36%	2,375,496	11.33%	2,536,004	6.76%	2,688,164	6.00%	2,849,453	6.00%	3,020,421	6.00%	7.22%
Retail Expense	1,922,000	2,138,000	11.24%	2,320,000	8.51%	2,547,000	9.78%	2,970,000	16.61%	3,296,000	10.98%	3,648,000	10.68%	11.31%
TOTAL	11,850,254	12,765,126	7.72%	13,691,746	7.26%	14,702,780	7.38%	16,107,370	9.55%	17,437,000	8.25%	18,821,000	7.94%	8.08%
Deficit*		0	(583,126)		(717,746)		(237,780)		(185,370)		0		(100,000)	

*To be funded from \$2 million contribution from Founder's Fund

Retail Sales: Net Profit	752,000	1,102,000	46.54%	1,250,000	13.43%	1,433,000	14.64%	1,670,000	16.54%	1,854,000	11.02%	2,052,000	10.68%	18.81%
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